

What do we know and where are we heading? An Assessment of the Alaska Economy

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Outline

- 1 General Overview
 - Alaska's Economy: Historical Context
- 2 Alaska's Economy
 - Overview of the sectors
 - General Fund
 - Capital Spending
 - Basic Forecast
 - short term effects of policy options
- 3 Summary

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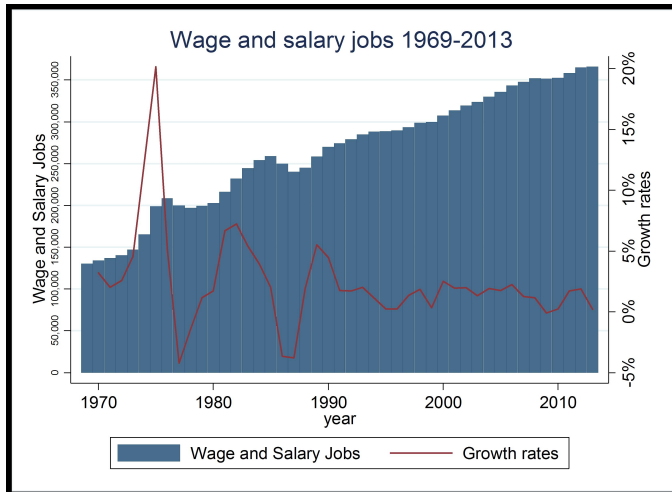
Basic Definition

- Alaska as a state used to be known for rising employment and population, characterized by periods of **boom and bust** such as the construction of the **trans-Alaska oil pipeline** in the mid-1970s, the recession following completion of the pipeline in the late 1970s, the government spending and construction driven boom of the early 1980s, and the **oil price crash driven deep recession** of the late 1980s. While true once, that picture is no longer true.

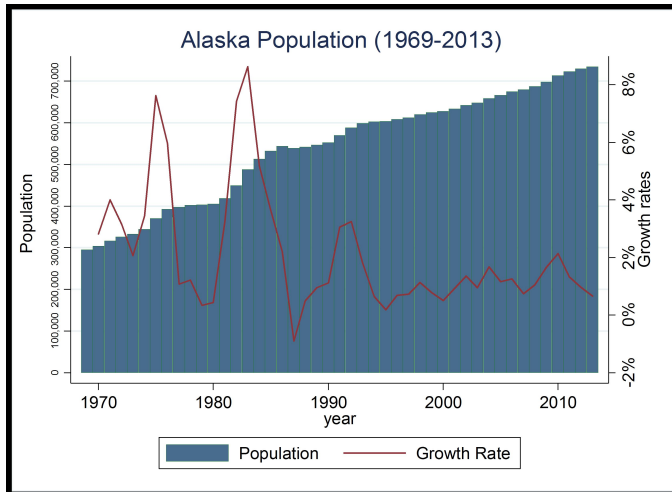
Slow and steady

- For the past quarter-century, Alaska's economy has been characterized by relatively **slow and steady growth** in population and employment driven by growth across many sectors such as the federal government, mining, tourism, air cargo, healthcare, and retail trade, and with significant regional variation.

Wage and Salary Jobs



Population



Current status

A bit more explanation

At present, jobs have been lost in the oil and gas sector but have not made their way into the rest of the economy. We have yet to experience the multiplier effects of those losses. Some of the reasons may be:

There is a lag and we will feel these effects soon enough. The type of jobs that have been cut are not very connected to other sectors.

Alaska's Economy

- Alaska's Economy may be divided in basic and support industries.
 - **Oil and Seafood** are basic industries because they sell products products to markets outside Alaska.
 - **Tourism** is a basic industry because tourists spend money in Alaska.
 - **The federal government** is a basic industry because the federal government injects money in Alaska.

Overall Assessment (1985 Versus 2015)

- How does the economy compare to that of 1985?
 - The economy, measured by jobs, is about 50 percent larger than it was in 1985.
 - Several industries (mining, tourism, air cargo) are considerably larger.
 - PF dividend is three times the size it was then.
 - Assets have increased in value.
 - Federal payments to individuals have also risen.
 - Share of people over 65 has increased (Payments related to retirement and other transfers have increased seven fold).

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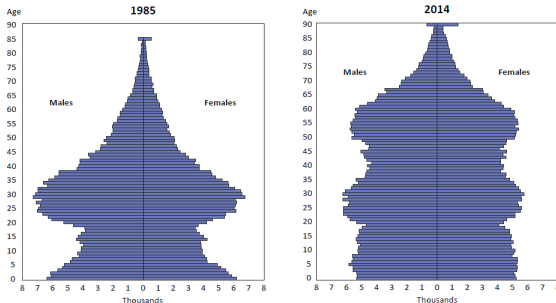
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Age structure

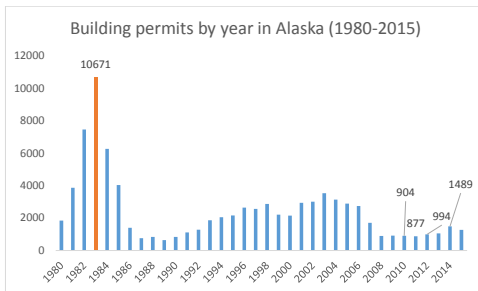
4 The Population Has Gotten Older

ALASKA'S AGE STRUCTURE, 1985 AND 2014



Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

Building permits



- The **basic sector** includes those industries that are traditionally thought to drive the economy by bringing in income from outside the state. The second part of the economy is **support sector**; the part that provides goods and services to the residents and businesses of the state. Since the 1980s **both parts of the economy have diversified**; they've not only expanded, but the variety of activities in each has increased.

Concentration

<u>Area</u>	<u>Specialization</u>
<i>Aleutians East</i>	Manufacturing and Local Government
<i>Aleutians West</i>	Manuf and Local government
<i>Anchorage</i>	Fairly well diversified (Nothing stands out)
<i>Bethel</i>	Finance, Gov
<i>Bristol</i>	Trade, Gov, Info
<i>Denali</i>	Leisure, Nat resources
<i>Dillingham</i>	Educ, Loc, Gov
<i>Fairbanks</i>	Stgov, Const
<i>Haines</i>	Gov, Leisure
<i>Hoonah</i>	Government
<i>Juneau</i>	State Government
<i>Kenai</i>	Manufacturing and Natural resources
<i>Ketchikan</i>	Gov, Trade, Fin
<i>Kodiak</i>	Manufacturing
<i>LNP</i>	Gov and construction
<i>Matsu</i>	Const, Natural resources, and info
<i>Nome</i>	Manuf and Other
<i>North Slope</i>	Cons, Gov
<i>Northwest Arctic</i>	Edu, Gov, Profess
<i>Petersburg</i>	Manufacturing, Gov(Loc)
<i>Prince of Whales</i>	Const, Loc gov, Manuf, Nat res,
<i>Sitka</i>	Edu, Loc gov, Manuf,
<i>Skagway</i>	Leisure, Trade
<i>Southeast Fairbanks</i>	Const, Profess, Gov(loc)
<i>Valdez</i>	Loc gov, Manuf, some Natu
<i>Wade Hampton</i>	Loc gov, Manuf, Other, Fina
<i>Wrangell</i>	Constr, Loc(gov), Manuf
<i>Yakutat</i>	Leisure, Loc(gov), Maunf
<i>Yukon</i>	Loc(gov) Other

Role of Government

Share of Government Employment by borough and year

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Aleutians East	31%	37%	37%	39%	37%	40%	35%	34%	36%	36%	35%	35%	36%	35%
Aleutians West	26%	32%	38%	41%	47%	43%	48%	44%	39%	37%	43%	46%	46%	44%
Anchorage	16%	16%	16%	16%	16%	16%	16%	16%	16%	16%	16%	16%	16%	15%
Bethel	35%	47%	50%	51%	56%	55%	57%	56%	57%	56%	57%	53%	55%	54%
Bristol Bay	24%	27%	31%	33%	28%	31%	38%	37%	31%	31%	38%	37%	39%	38%
Denali	22%	24%	24%	24%	26%	25%	28%	24%	23%	22%	23%	23%	26%	28%
Dillingham	36%	45%	60%	63%	57%	57%	60%	62%	60%	54%	50%	53%	51%	51%
Fairbanks North	20%	21%	21%	21%	19%	19%	20%	20%	20%	22%	23%	22%	23%	23%
Haines	27%	27%	32%	32%	36%	33%	33%	34%	35%	34%	33%	37%	34%	36%
Hoonah Angoon	26%	31%	36%	36%	49%	48%	45%	40%	45%	53%	50%	53%	49%	47%
Juneau	38%	40%	41%	42%	41%	40%	40%	40%	40%	41%	41%	41%	40%	40%
Kenai	20%	23%	24%	23%	25%	25%	25%	24%	25%	26%	25%	25%	25%	24%
Ketchikan	23%	26%	27%	27%	27%	28%	27%	28%	29%	28%	26%	29%	28%	27%
Kodiak	26%	34%	33%	34%	38%	36%	42%	43%	42%	40%	41%	44%	40%	46%
L&P	31%	45%	65%	62%	61%	58%	55%	61%	62%	59%	61%	62%	60%	60%
Matsu	16%	16%	16%	16%	17%	17%	16%	15%	15%	17%	17%	18%	18%	19%
Nome	43%	48%	53%	53%	61%	60%	61%	60%	61%	63%	61%	64%	63%	64%
North Slope	51%	51%	55%	58%	58%	55%	58%	58%	58%	60%	59%	62%	58%	58%
Northwest Arctic	37%	42%	48%	48%	51%	51%	49%	49%	47%	51%	51%	48%	44%	48%
Petersburg	36%	33%	42%	39%	33%	31%	34%	35%	35%	35%	43%	42%	41%	43%
POW	28%	31%	34%	32%	31%	30%	34%	32%	33%	38%	36%	37%	37%	38%
Sitka	24%	25%	26%	26%	25%	25%	25%	26%	28%	28%	29%	29%	28%	28%
Skagway	22%	22%	22%	25%	26%	24%	23%	25%	26%	25%	26%	24%	25%	25%
Southeast Fairbanks	16%	27%	34%	36%	37%	33%	32%	32%	29%	31%	32%	33%	32%	32%
Valdez	21%	28%	29%	31%	32%	30%	33%	31%	31%	35%	36%	34%	34%	35%
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Wrangell	29%	31%	34%	34%	32%	32%	33%	32%	34%	34%	36%	38%	39%	38%

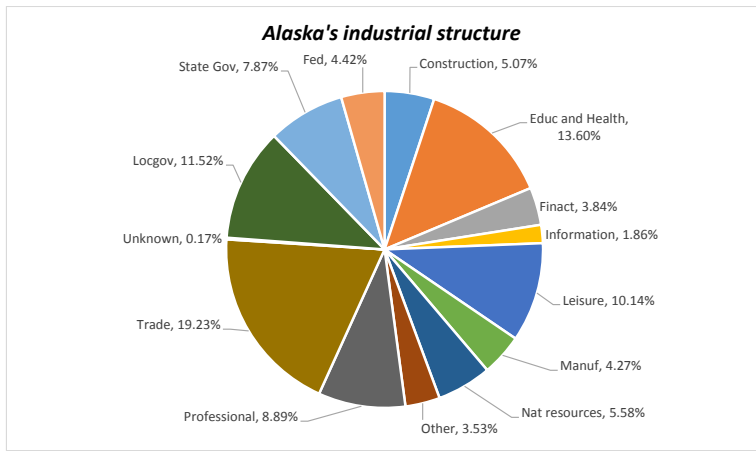
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Five Largest sectors in Anchorage

Healthcare and Social Assistance	12.68%
Retail Trade	10.15%
Accommodation and Food services	7.69%
Professional and scientific	7.53%
state and Local	9.87%

Industrial Structure in 2014

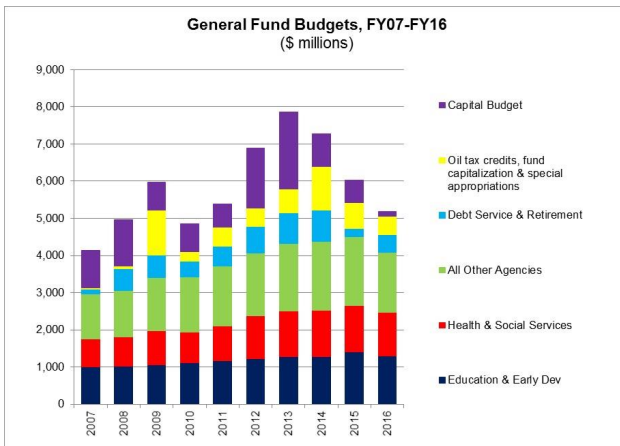


Historical growth



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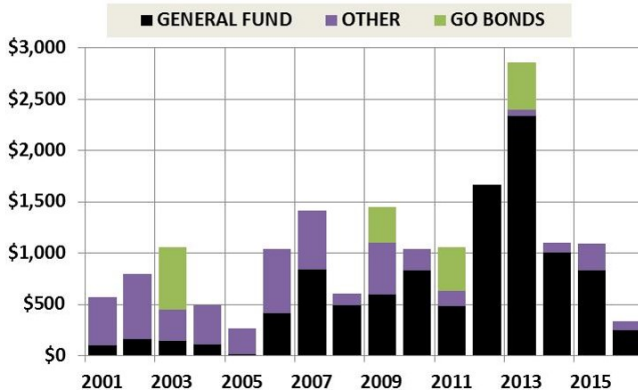


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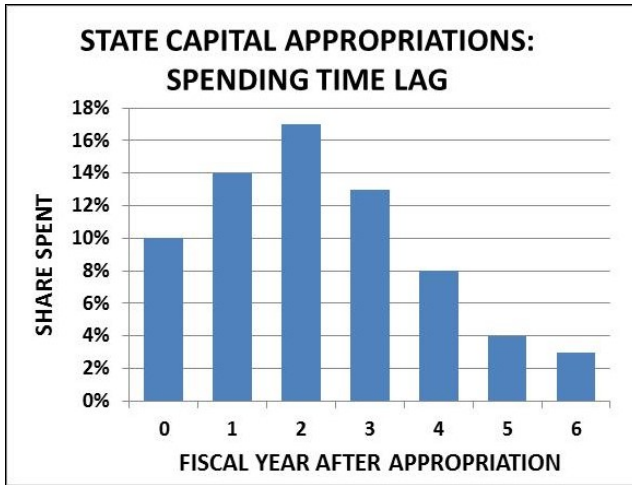
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Capital Appropriations

State Govt Capital Appropriation: From Own Sources (Million 2015 \$)



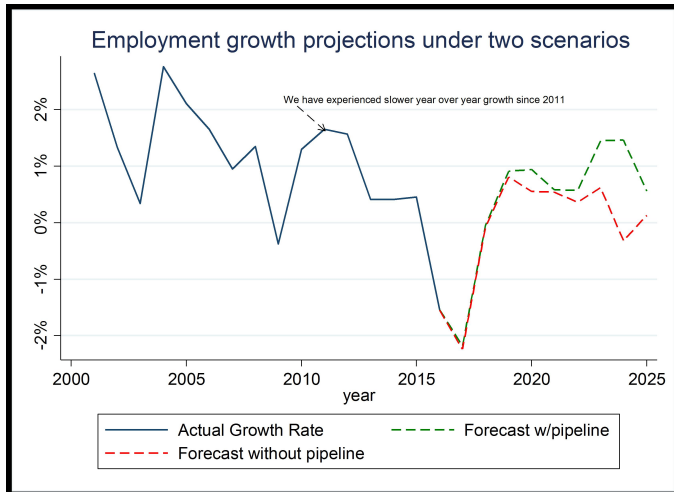
Cash on the street vs. Appropriation



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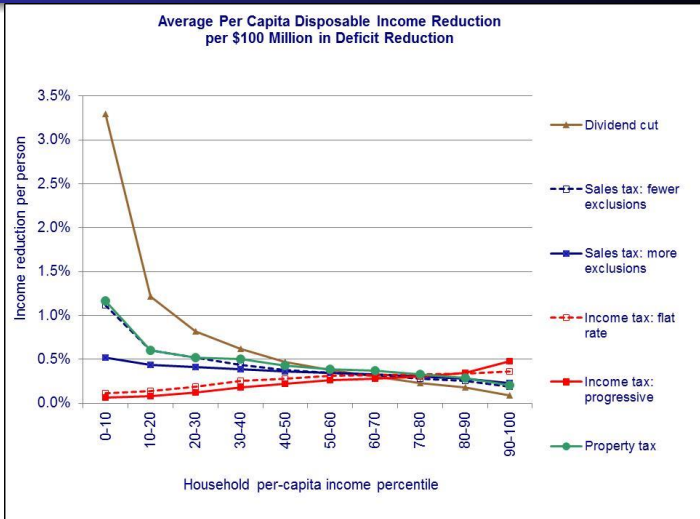
Summary of the Forecast



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Effect of taxes on households



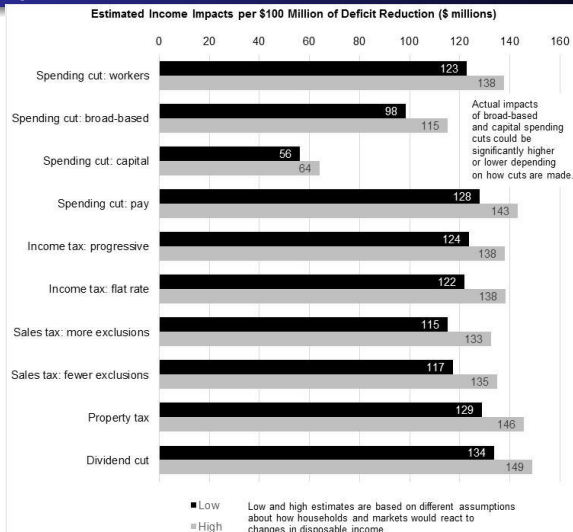
Short run economic impacts of spending cuts depend on what is cut

- What is cut affects the extent to which the cuts directly affect jobs and income of government and contractor workers and the resulting multiplier effects on the economy
- You can't generalize about economic impacts of spending cuts. Our estimates illustrate a range of potential impacts.

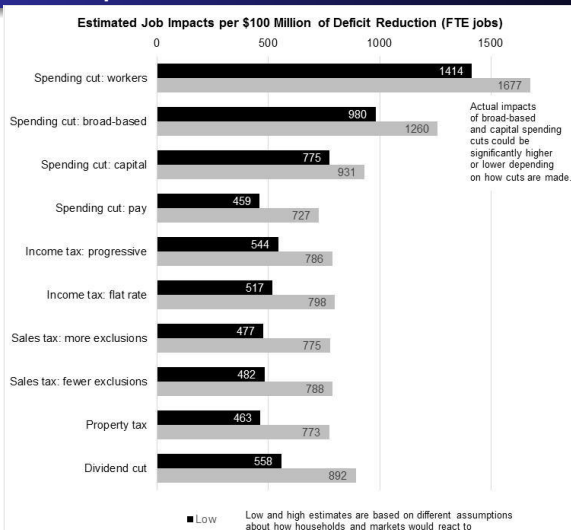
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Income impacts



Employment impacts



All together

**Estimated Total Short-Run Economic Impacts of Selected Options for Reducing the Deficit by \$100 Million:
Low and High Scenarios**

Option	Income Impacts (millions of \$ of income)		Employment Impacts (FTE jobs in Alaska)	
	Low scenario	High scenario	Low scenario	High scenario
Spending cut: workers	122	138	1414	1677
Spending cut: broad-based	98	115	980	1260
Spending cut: capital	56	64	775	931
Spending cut: pay	127	143	459	727
Income tax: progressive	124	138	544	786
Income tax: flat rate	122	138	517	798
Sales tax: more exclusions	116	133	477	775
Sales tax: fewer exclusions	117	134	482	788
Property tax	114	132	463	773
Dividend cut	130	149	558	892
Saving less	0	0	0	0

Summary

- Alaska is going to lose jobs in 2016, as the state continues to face downward pressure from low oil prices and tightened government budgets.
- The sky is not falling.
- We are much better positioned to endure a slowdown than we were in the 1980's.

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